

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name TOWNSHIP OF DATERTOWN	County SANILAC
Fiscal Year End 3-31-06	Opinion Date 5-25-06	Date Audit Report Submitted to State 7-21-06	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☐ ☒ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	N / A	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.		Telephone Number 989-673-3137	
Street Address 715 East Frank St. Caro, Michigan 48723-1623		City	State Zip
Authorizing CPA Signature 	Printed Name GARY R. ANDERSON	License Number 1101005446	

WATERTOWN TOWNSHIP
Sanilac County, Michigan

Report on Financial Statements
(with additional information)
Year Ended March 31, 2006

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ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

May 25, 2006

INDEPENDENT AUDITORS' REPORT

Watertown Township
Sanilac County, Michigan

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Township of Watertown as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Township of Watertown's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Management has not presented government-wide financial statements to display the financial position and changes in the financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Township of Watertown's governmental activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township of Watertown as of March 31, 2006, or changes in its financial position or cash flows where applicable, for the year then ended.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental financial information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements of Watertown Township. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

715 East Frank Street, Caro, MI 48723-1647 • 989/673-3137 • 800-234-8829 • Fax 989/673-3375

6261 Church Street, Cass City, MI 48726-1111 • 989/872-3730 • Fax 989/872-3978

E mail cpa@atbdcpa.com Website www.atbdcpa.com

General Purpose Financial Statements

WATERTOWN TOWNSHIP
COMBINED BALANCE SHEET -
ALL FUND TYPES AND ACCOUNT GROUPS
March 31, 2006

	GOVERNMENTAL FUND TYPES		FIDUCIARY FUND TYPE
	GENERAL	SPECIAL REVENUE	AGENCY
<u>ASSETS</u>			
Cash - Checking	\$ 194,898	\$ 30,969	\$ 109,310
Certificate of Deposit	213,510		
Taxes Receivable			93,804
Due from other funds	121,724		
Fixed Assets			
<u>TOTAL ASSETS</u>	<u>\$ 530,132</u>	<u>\$ 30,969</u>	<u>\$ 203,114</u>
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Accounts Payable			\$ -
Due to other funds			121,724
Due to other Governmental Units			81,390
<u>TOTAL LIABILITIES</u>	<u>-</u>	<u>-</u>	<u>203,114</u>
FUND EQUITY:			
Investment in general fixed assets			
Fund Balance - undesignated	\$ 370,933		
Fund Balance - designated	159,199	\$ 30,969	
<u>TOTAL FUND BALANCE</u>	<u>530,132</u>	<u>30,969</u>	<u>-</u>
<u>TOTAL LIABILITIES & FUND EQUITY</u>	<u>\$ 530,132</u>	<u>\$ 30,969</u>	<u>\$ 203,114</u>

The accompanying notes are an integral part of the financial statements.

ACCOUNT GROUPS	TOTALS (MEMORANDUM ONLY)
GENERAL FIXED ASSETS	
	\$ 335,177
	213,510
	93,804
	121,724
\$ 210,200	210,200
\$ 210,200	\$ 974,415
	\$ 121,724
	81,390
-	203,114
\$ 210,200	210,200
	370,933
	190,168
210,200	771,301
\$ 210,200	\$ 974,415

WATERTOWN TOWNSHIP
COMBINED STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE - ALL GOVERNMENTAL FUND TYPES
YEAR ENDED MARCH 31, 2006

	GENERAL FUND	SPECIAL REVENUE FUND	TOTALS (MEMORANDUM ONLY)
REVENUE:			
Taxes	\$ 137,451		\$ 137,451
Interest income	19,438		19,438
State revenue sharing	95,276		95,276
State revenue sharing - Metro act	3,106		3,106
Other revenue	11,743	\$ 8,144	19,887
TOTAL REVENUE	267,014	8,144	275,158
EXPENDITURES:			
Legislative	17,374		17,374
Executive	4,402		4,402
Clerk	10,716		10,716
Board of Review	1,323		1,323
Assessor	10,162		10,162
Treasurer	13,948		13,948
Elections	705		705
Township hall & grounds	9,829		9,829
Planning & Zoning	8,097		8,097
Public works	196,780	0	196,780
TOTAL EXPENDITURES	273,336	0	273,336
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(6,322)	8,144	1,822
FUND BALANCE - BEGINNING OF YEAR	536,454	22,825	559,279
FUND BALANCE - END OF YEAR	\$ 530,132	\$ 30,969	\$ 561,101

The accompanying notes are an integral part of the financial statements.

WATERTOWN TOWNSHIP
COMBINED STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUND TYPES
FOR THE YEAR ENDED MARCH 31, 2006

	GENERAL FUND		
	BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)
REVENUE:			
Taxes	\$ 115,834	\$ 137,451	\$ 21,617
Interest income	10,000	19,438	9,438
State revenue sharing	84,000	95,276	11,276
State revenue sharing - Metro act		3,106	3,106
Other revenue	19,620	11,743	(7,877)
TOTAL REVENUE	229,454	267,014	37,560
EXPENDITURES:			
Legislative	18,110	17,374	736
Executive	4,200	4,402	(202)
Clerk	11,800	10,716	1,084
Board of Review	1,250	1,323	(73)
Assessor	11,040	10,162	878
Treasurer	17,550	13,948	3,602
Election	850	705	145
Township hall & grounds	12,550	9,829	2,721
Planning & Zoning	8,046	8,097	(51)
Public works	209,033	196,780	12,253
TOTAL EXPENDITURES	294,429	273,336	21,093
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(64,975)	(6,322)	58,653
FUND BALANCE - BEGINNING OF YEAR	536,454	536,454	-
FUND BALANCE - END OF YEAR	\$ 471,479	\$ 530,132	\$ 58,653

The accompanying notes are an integral part of the financial statements.

SPECIAL REVENUE FUNDS			TOTALS		
BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
		-	\$ 115,834	\$ 137,451	\$ 21,617
		-	10,000	19,438	9,438
		-	84,000	95,276	11,276
		-	-	3,106	3,106
\$ 7,500	\$ 8,144	\$ 644	27,120	19,887	(7,233)
7,500	8,144	644	236,954	275,158	38,204
		-	18,110	17,374	736
		-	4,200	4,402	(202)
		-	11,800	10,716	1,084
		-	1,250	1,323	(73)
		-	11,040	10,162	878
		-	17,550	13,948	3,602
		-	850	705	145
		-	12,550	9,829	2,721
		-	8,046	8,097	(51)
7,500		7,500	216,533	196,780	19,753
7,500	-	7,500	301,929	273,336	28,593
-	8,144	8,144	(64,975)	1,822	66,797
\$ 22,825	22,825	-	559,279	559,279	-
\$ 22,825	\$ 30,969	\$ 8,144	\$ 494,304	\$ 561,101	\$ 66,797

WATERTOWN TOWNSHIP, SANILAC COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

DESCRIPTION OF TOWNSHIP OPERATIONS AND FUND TYPES:

The Watertown Township covers an area of approximately 35 square miles within Sanilac County. The Township operates under an elected Board of Trustees (5 members) and provides services to many residents in many areas including, administration of justice, community enrichment and development and human services.

The financial statements of the Watertown Township have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units, except for converting to GASB #34. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

REPORTING ENTITY:

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, the Financial Reporting Entity.

Based upon the application of these criteria, the general purpose financial statements of the Watertown Township contain all the funds and account groups controlled by the Township Board of Trustees as no other entity meets the criteria to be considered a blended component unit or a discretely presented component of the Township nor is the Township a component unit of another entity.

SANDUSKY-WATERTOWN UTILITIES AUTHORITY:

The Sandusky-Watertown Utilities Authority was created by the City of Sandusky and Watertown Township, both located in the County of Sanilac, Michigan. The Authority is operated under a joint five (5) member Board consisting of four representatives from the City and one from the Township, the purpose of which is to acquire, own, improve, enlarge, extend, and operate a sewage disposal system in accordance with the authorization of Act 233, Public Acts of Michigan, 1955, as amended. The sewage treatment plant is maintained and operated by the City of Sandusky.

The Sandusky-Watertown Utilities Authority is a legally separate entity, with a majority of the Board appointed by the Council of the City of Sandusky. As a result the Authority is reported as a blended component unit of the City of Sandusky. The Authority is audited as a separate entity and a separate financial report is issued.

SANDUSKY COMMUNITY FIRE DEPARTMENT ASSOCIATION:

The Sandusky Community Fire Department Association was created on March 1, 2001, by the City of Sandusky and the Townships of Custer, Elmer and Watertown. All of the governmental entities are located in Sanilac County, Michigan. The department operates under a joint nine (9) member board consisting of two (2) representatives from each of the entities and one (1) member elected at large by the board, for the purpose of providing total fire protection to the City of Sandusky, all of Watertown Township, twenty-four (24) square miles of Custer Township, and sixteen (16) square miles of Elmer Township. The Association was established under Public Act 22, commonly known as the Fire Protection Act, which provides that adjoining cities with a population of not more than 15,000 and townships acting jointly may establish, fund, maintain and regulate a fire department for the benefit of the residents thereof.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) in its Statement No. 14, the Sandusky Community Fire Department Association is not considered to be part of any other governmental entity for financial reporting purposes. The criteria established by GASB for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public services, fiscal independence, financial accountability, imposition of will and financial benefit or burden. On this basis, the financial statements of other governmental organizations are not included in the financial statements of the Sandusky Community Fire Department Association. The Association is audited independently and a separate financial report is issued.

WATERTOWN TOWNSHIP, SANILAC COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

FUND ACCOUNTING:

The government uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types".

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital project funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government.

Account groups are used to account for fixed assets and long-term liabilities that are not reported in the respective governmental funds.

BASIS OF ACCOUNTING:

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used to revenue recognition for all other governmental fund revenues susceptible to accrual. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

Those revenues susceptible to accrual are property taxes, federal and state grants, special assessments, licenses, interest revenue and charges for services. Fines, permits and sales tax and other state revenues are not susceptible to accrual because generally they are not measurable until received in cash.

BUDGETS AND BUDGETARY ACCOUNTING:

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year-end.

Encumbrances represent commitments related to unperformed contracts for goods or services. The Township does not utilize encumbrance accounting.

WATERTOWN TOWNSHIP, SANILAC COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

CASH AND EQUIVALENTS:

Cash includes amounts in petty cash and demand deposits. Investments included instruments allowed by state statute subsequently described. Investments are carried at amortized cost or fair value. The Township's deposits and investments are in accordance with statutory authority.

State statutes authorize the Township to invest in bonds, securities, and other direct and certain indirect obligations of the U.S. Treasury, which include securities issued or guaranteed by the Government National Mortgage Association; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; and in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase and not totaling more than 50% of any fund at any time. The Township is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

SHORT-TERM INTERFUND RECEIVABLES/PAYABLES:

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

RECEIVABLES:

Receivables consist primarily of amounts for taxes and customer charges. No allowance for doubtful accounts is considered necessary and credit risk is minimal because of the large number of customers and the authority of the Township to add receivables to the tax rolls which are secured by the underlying property.

FIXED ASSETS:

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued to cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are value at their estimated fair market value on the date received. Fixed assets purchased within the proprietary funds and the non-expendable trust fund are reported as assets within those funds and accordingly, are included on their balance sheet.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government. Primarily because of this policy, total expenditures for capital improvements in the governmental funds do not equal total additions to the general fixed asset account group.

Assets in the general fixed assets account group are not depreciated. Depreciation of buildings, equipment and vehicles in the proprietary fund types is computed over the estimated useful lives using the straight-line method.

WATERTOWN TOWNSHIP, SANILAC COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued):

INTERFUND TRANSACTIONS:

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Non-reoccurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

MEMORANDUM ONLY - TOTAL COLUMNS:

The total columns on the combined statements are captioned memorandum only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data

ESTIMATES:

The preparation of financial statements in conformity with the U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH AND EQUIVALENTS:

Cash and investments are held separately by each of the Township's funds.

DEPOSITS:

At year-end, the carrying amount of the Township's deposits was \$548,687 and the bank balance was \$558,911, \$209,495 of which was covered by federal depository insurance.

INVESTMENTS:

The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year-end. Category 1 includes investments that are insured or registered, or securities held by the Township's or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered, with securities held by the counter-part's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At March 31, 2006, the Township had no Category 1, 2 or 3 investments.

The Township's cash, cash equivalents, investments and restricted assets at March 31, 2006 are composed of the following:

	<u>CASH AND CASH EQUIVALENTS</u>	<u>INVESTMENTS</u>	<u>RESTRICTED ASSETS</u>
General Fund:			
Deposits	\$249,209		\$159,199
Other Funds:			
Deposits	<u>109,310</u>		<u>30,969</u>
TOTAL	<u>\$358,519</u>	<u>NONE</u>	<u>\$190,168</u>

Additional disclosures required by GASB 40 are not included in the accompanying financial statements.

WATERTOWN TOWNSHIP, SANILAC COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 3 - CHANGES IN GENERAL FIXED ASSETS:

A summary of changes in general fixed assets follows:

	BALANCE MARCH 31, 2005	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	BALANCE MARCH 31, 2006
GENERAL GOVERNMENT:				
Township Hall	\$200,000			\$200,000
Office Equipment	8,200			8,200
Furniture	<u>2,000</u>	<u> </u>	<u> </u>	<u>2,000</u>
TOTAL GENERAL FIXED ASSETS	<u>\$210,200</u>	<u>NONE</u>	<u>NONE</u>	<u>\$210,200</u>

NOTE 4 - DUE TO AND FROM OTHER FUNDS:

Due to and from other funds balances at March 31, 2006 are as follows:

<u>FUND</u>	<u>DUE FROM OTHER FUNDS</u>	<u>DUE TO OTHER FUNDS</u>
General Fund	\$121,724	
Trust and agency:		
Current Tax Collection Fund	<u> </u>	<u>\$121,724</u>
TOTAL	<u>\$121,724</u>	<u>\$121,724</u>

NOTE 5 - LEGAL COMPLIANCE - BUDGETS:

The Township follows these procedures in establishing the budgetary data reflected in the financial statements.

1. On or prior to April 1 of each year, a proposed budget is submitted to the Board of Trustees for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through passage of a resolution.
4. Any revisions of the budget must be approved by the Board of Trustees.
5. Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue funds.
6. Budgets for general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Trustees during the fiscal year. Individual amendments were not material in relation to the original appropriations, which were amended.
7. The budget is prepared by fund and function and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. Expenditures may not exceed budget at the function level.

WATERTOWN TOWNSHIP, SANILAC COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 6 - PROPERTY TAX REVENUE:

Property taxes become an enforceable lien on the property as of December 1. Taxes are levied on December 1 and are due in February of the following year. The Township bills and collects its own property taxes and also taxes for the county, intermediate school district, state education fund and school districts. All tax collections are accounted for in the tax collection fund, an agency fund. Township tax revenues are recognized in the fiscal year that includes the December 1 levy date. In addition, the Township collected the State Education Tax and the county tax that was levied July 1 and due September 15. The Township levied .9124 mills for operating and 1.9798 mills for roads on a taxable value of \$37,799,721.

NOTE 7 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township carries commercial insurance to cover any losses that may result from the above-described activities. The Township did not have any losses in the three prior fiscal years.

NOTE 8 – SEWAGE DISPOSAL SYSTEM AGREEMENTS:

The Township does not own a sewage disposal system; instead the Township has joined the Sandusky-Watertown Utilities Authority. The purpose of the Utilities Authority is to acquire, own, improve, enlarge, extend and operate a sewage disposal system and a water supply system in accordance with the authorization of Act 233, Public Acts of Michigan, 1955, as amended.

Pursuant to the contract, the Township is obligated to the Utilities Authority for its share of the operations and 20.1 percent of a \$1,020,000 bond issue, interest ranging from 7.85 to 8.00 percent, which was sold by the Sandusky-Watertown Utilities Authority, as its share of the cost of a new sewage disposal system. The payments are to be made out of the Township portion of sewer fund revenues collected by the Watertown Utilities Authority with any additional monies needed coming from the Township's Special Assessment Fund.

NOTE 9 – GASB 34:

The Township chose not to adopt GASB 34, which is required by Generally Accepted Accounting Principals (GAAP). This departure from GAAP is also noted in the audit report letter.

NOTE 10 – LITIGATION:

The City of Sandusky has dissolved the Sandusky-Watertown Sewer Authority. Watertown Township is involved in litigation regarding establishing their rights under the dissolution.

Supplemental Information

WATERTOWN TOWNSHIP
GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
REVENUE			
Current property taxes	\$ 106,434	\$ 120,969	\$ 14,535
Property Tax Collection Fee	9,400	16,482	7,082
Interest Earnings	10,000	19,438	9,438
State revenue sharing	84,000	95,276	11,276
State revenue sharing - Metro act		3,106	3,106
Other Revenue:			
Planning commision/Board of Appeals	2,000	555	
Cemetery	6,800	7,156	
Taxes in lieu of annexed area	3,300	3,301	
Miscellaneous	7,520	731	
Total Other Revenue	19,620	11,743	(7,877)
TOTAL REVENUE	<u>229,454</u>	<u>267,014</u>	<u>37,560</u>
EXPENDITURES			
Legislative:			
Salaries & wages - township board		6,095	
Auditing & legal fees		6,494	
Dues		751	
Supplies		4,034	
Total Legislative	18,110	17,374	736
Executive:			
Salaries and wages	4,200	4,402	(202)
Total Executive	4,200	4,402	(202)

WATERTOWN TOWNSHIP
GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
EXPENDITURES: (Continued)			
Clerk:			
Salaries & wages		\$ 9,914	
Office supplies & expenses		802	
Total Clerk	<u>\$ 11,800</u>	<u>10,716</u>	<u>\$ 1,084</u>
Salaries & wages	<u>1,250</u>	<u>1,323</u>	<u>(73)</u>
Total Board of Review	<u>1,250</u>	<u>1,323</u>	<u>(73)</u>
Assessor:			
Salaries & wages	9,040	9,756	
Office supplies & expenses	<u>2,000</u>	<u>406</u>	
Total Assessor	<u>11,040</u>	<u>10,162</u>	<u>878</u>
Treasurer:			
Salaries & wages		12,014	
Office supplies & expenses		<u>1,934</u>	
Total Treasurer	<u>17,550</u>	<u>13,948</u>	<u>3,602</u>
Election:			
Salaries & wages		589	
Office supplies & expenses		<u>116</u>	
Total Election	<u>850</u>	<u>705</u>	<u>145</u>
Township Hall & Grounds:			
Insurance	8,050	7,405	
Utilities	<u>4,500</u>	<u>2,424</u>	
Total Township Hall & Grounds	<u>12,550</u>	<u>9,829</u>	<u>2,721</u>
Planning & Zoning:			
Salaries & wages		7,155	
Office supplies & expenses		<u>942</u>	
Total Planning & Zoning	<u>8,046</u>	<u>8,097</u>	<u>(51)</u>

WATERTOWN TOWNSHIP
GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
EXPENDITURES: (Continued)			
Public Works:			
Fire Protection	\$ 45,383	\$ 32,827	
Drains at large	10,000	9,153	
Fica	3,500	3,833	
Lights	400	682	
Cemetery	10,100	10,961	
Metro Act		3,106	
Roads	<u>139,650</u>	<u>136,218</u>	
Total Public Works	<u>209,033</u>	<u>196,780</u>	<u>\$ 12,253</u>
TOTAL EXPENDITURES	<u>294,429</u>	<u>273,336</u>	<u>21,093</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(64,975)</u>	<u>(6,322)</u>	<u>58,653</u>
FUND BALANCE - BEGINNING OF YEAR	<u>536,454</u>	<u>536,454</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 471,479</u></u>	<u><u>\$ 530,132</u></u>	<u><u>\$ 58,653</u></u>

See the accompanying notes.

WATERTOWN TOWNSHIP
CURRENT TAX COLLECTION FUND
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED MARCH 31, 2006

	BALANCE MARCH 31, 2005	ADDITION	REDUCTION	BALANCE MARCH 31, 2006
<u>ASSETS</u>				
Cash	\$ 6,701	\$ 102,609		\$ 109,310
Taxes - receivable	79,328	1,078,243	\$ 1,063,767	93,804
<i>TOTAL ASSETS</i>	<u>\$ 86,029</u>	<u>\$ 1,180,852</u>	<u>\$ 1,063,767</u>	<u>\$ 203,114</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 6,701	\$ 6,701		\$ -
Due to general fund	9,133	9,001	\$ 121,592	121,724
Due to other Governmental Units	70,195	1,048,065	1,059,260	81,390
<i>TOTAL LIABILITIES</i>	<u>\$ 86,029</u>	<u>\$ 1,063,767</u>	<u>\$ 1,180,852</u>	<u>\$ 203,114</u>

See the accompanying notes.